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O&I TENNCARE

**January 28, 2009**

Julie Burton, CPA  
TennCare Examiner  
Department of Commerce and Insurance  
TennCare Division  
500 James Robertson Parkway, Suite 750  
Nashville, TN 37243-1169

RE: Matter # 08-083

Dear Ms. Burton:

Please review the following explanations that were requested in the above referenced matter.

**Liabilities and Capital**

Aggregate Health Policy Reserves are calculated annually and evaluate anticipated administrative revenue in comparison with anticipated administration expense. The loss was calculated for 12 months at the end of 2007 due to the known end of the administrative contract with the state. This amount remained stable through first and second quarters, but was re-evaluated during the third quarter based on remaining three months left in the contract with the state. The decrease is due to this re-evaluation.

Amounts due to parent decreased \$20,389,203 due to the actual liability to CHP being paid off during the third quarter.

The Penalty reserve decreased due to evaluation by PHP of Tennessee staff as to what specific 2008 contract requirements had not been met at the end of third quarter. Evaluation was based on notices received from TennCare Bureau on contract deficiencies and statistics reported to TennCare Bureau related to claims timeliness and call center statistics.

The Reserve for At-Risk Revenue is calculated based on a percentage of monthly revenue. Per the TennCare contract, certain revenue is subject to reaching certain benchmarks (e.g. EPSDT compliance, Non ER visits, Generic Drug Usage, etc.). Therefore, the reserve decreased as PHP changed the liability to anticipate penalties for the last 6 months of the year compared to an 18 month time frame in previous months.

## **Statement of Revenues and Expenses**

The Statement of Revenue and Expenses for third quarter has been amended to reflect the entire deduction of ASO funds against general expenses. Claims adjustment expenses and general expenses now reflect negative expense amounts. The miscellaneous income of \$393,878 is a payment for 2006 risk share bonus that was received in 2008. PHPT placed this amount in miscellaneous income due to the fact that this was for a prior period and not the current period. Report #2A has also been amended and shows the expense breakdowns that the Underwriting Investment Exhibit, Part 3, Analysis of Expenses would show. Please refer to that schedule for expense details.

The Statement of Revenue and Expenses has also been amended to reflect the elimination of Deferred Income Taxes that were reported on line 31. This changes the percent of change for Line 31 and Line 32 by \$3,447,840. The increase in Net Income before taxes during third quarter is due to the write off of the liability accounts mentioned above.

The change in non-admitted assets on the Capital and Surplus Account Schedule has been amended.

## **Notes to the Financial Statements**

Note 21 has been amended to reflect the change in ownership of PHP.

## **General Interrogatories**

The variance for Interrogatory 14.2 is due to a keying error in 3<sup>rd</sup> Quarter 2008 Disposals. Disposals for this were actually \$64,000,000. Schedule D - Part 4 has been amended. The descriptions for these bonds have also been amended as well and are reflected on Schedule D - Part 3 and Part 4. The investment strategy of buying and selling the bonds was to maximize interest in the volatile market.

## **Statement of Premiums and Fees for Taxation**

The difference of \$7,478.72 in premiums reported by the TennCare Bureau and PHPT was for a payment of legal fees that offset legal fees in the expenses on the Revenue Statement of PHPT. While PHPT does not agree that this should be used in the calculation for premium taxes, we will add it to the 2008 Annual Statement of Premiums and Fees for Taxation.

If you have any questions regarding these explanations, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Missy Anderson".

Missy Anderson  
TennCare Accountant

**Amended Statement Cover**

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QUARTERLY STATEMENT AMENDMENT

OF THE

**Preferred Health Partnership of Tennessee, Inc.**

Of

Knoxville

In the state of

Tennessee

TO THE

Insurance Department

OF THE STATE OF

Tennessee

FOR THE QUARTER ENDED  
September 30, 2008

Amendment made to correct the following pages: Statement of Revenue and Expenses, PHPT Operations 2A, PHPT State Consolidated 2A, Notes to Financial Statement, Schedule D - Part B, Schedule DA - Part 1, Schedule D - Part 3, Schedule D - Part 4



# QUARTERLY STATEMENT

## AS OF September 30, 2008

### OF THE CONDITION AND AFFAIRS OF THE

#### Preferred Health Partnership of Tennessee, Inc.

NAIC Group Code	1253 (Current Period)	1253 (Prior Period)	NAIC Company Code	95749	Employer's ID Number	62-1546662
Organized under the Laws of	Tennessee		State of Domicile or Port of Entry	Tennessee		
Country of Domicile	United States of America					
Licensed as business type:	Life, Accident & Health[ ] Dental Service Corporation[ ] Other[ ]		Property/Casualty[ ] Vision Service Corporation[ ] Is HMO Federally Qualified? Yes[X] No[ ] N/A[ ]		Hospital, Medical & Dental Service or Indemnity[ ] Health Maintenance Organization[X]	
Incorporated/Organized	01/01/1994		Commenced Business	01/01/1994		
Statutory Home Office	1420 Centerpoint Blvd. (Street and Number)		Knoxville, TN 37932 (City, or Town, State and Zip Code)			
Main Administrative Office			1420 Centerpoint Blvd. (Street and Number)			
	Knoxville, TN 37932 (City or Town, State and Zip Code)		(865)670-7282 (Area Code) (Telephone Number)			
Mail Address	1420 Centerpoint Blvd. (Street and Number or P.O. Box)		Knoxville, TN 37932 (City, or Town, State and Zip Code)			
Primary Location of Books and Records			1420 Centerpoint Blvd. (Street and Number)			
	Knoxville, TN 37932 (City, or Town, State and Zip Code)		(865)670-7282 (Area Code) (Telephone Number)			
Internet Website Address						
Statutory Statement Contact	Melissa R Anderson (Name)		(865)670-7282 (Area Code)(Telephone Number)(Extension)			
	manders1@covhlth.com (E-Mail Address)		(865)470-7461 (Fax Number)			

#### OFFICERS

Name	Title
Douglas E. Haaland	Chief Operating Officer
Jeffery S. Collake	Chief Financial Officer
Jeffery S. Collake	Secretary

#### OTHERS

#### DIRECTORS OR TRUSTEES

Thomas Rowe Bell  
Daniel J. David MD  
Marvin H. Eichorn  
Kenneth Frederick Luckman MD  
Michael Earl Mitchell MD  
Francis H. Olmstead Jr.  
Dean M. Turner MD

Kenneth Truman Creed  
Michael McKay Dudley  
Randolph Murphree Lowry MD  
Cletus Joseph McMahon Jr. MD  
David A. Nowiski  
Anthony L. Spezia  
Sandra L. Mathy

State of Tennessee  
County of Knox ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)  
Douglas E. Haaland  
(Printed Name)  
1.  
Chief Operating Officer  
(Title)

(Signature)  
Jeffery S. Collake  
(Printed Name)  
2.  
Chief Financial Officer  
(Title)

(Signature)  
Jeffery S. Collake  
(Printed Name)  
3.  
Secretary  
(Title)

Subscribed and sworn to before me this 28th day of January, 2008

- a. Is this an original filing?  
b. If no, 1. State the amendment number  
2. Date filed  
3. Number of pages attached

Yes[ ] No[X]  
1  
01/29/2009  
13

(Notary Public Signature)  
STATE OF TENNESSEE  
NOTARY PUBLIC  
KNOX COUNTY

MY COMMISSION EXPIRES:  
August 10, 2010

## STATEMENT OF REVENUE AND EXPENSES

	Current Year To Date		Prior Year To Date	Prior Year Ended December 31
	1 Uncovered	2 Total	3 Total	4 Total
1. Member Months .....	X X X			
2. Net premium income (including \$.....0 non-health premium income) .....	X X X			
3. Change in unearned premium reserves and reserves for rate credits .....	X X X			
4. Fee-for-service (net of \$.....0 medical expenses) .....	X X X			
5. Risk revenue .....	X X X			
6. Aggregate write-ins for other health care related revenues .....	X X X	392,878	1,524,643	3,653,634
7. Aggregate write-ins for other non-health revenues .....	X X X			
8. Total revenues (Lines 2 to 7) .....	X X X	392,878	1,524,643	3,653,634
<b>Hospital and Medical:</b>				
9. Hospital/medical benefits .....		5,974		
10. Other professional services .....				
11. Outside referrals .....				
12. Emergency room and out-of-area .....				
13. Prescription drugs .....			(11,455)	(22,860)
14. Aggregate write-ins for other hospital and medical .....		(158,221)	(114,178)	(129,137)
15. Incentive pool, withhold adjustments and bonus amounts .....				
16. Subtotal (Lines 9 to 15) .....		(152,247)	(125,633)	(151,997)
<b>Less:</b>				
17. Net reinsurance recoveries .....				
18. Total hospital and medical (Lines 16 minus 17) .....		(152,247)	(125,633)	(151,997)
19. Non-health claims (net) .....				
20. Claims adjustment expenses, including \$.....(529,941) cost containment expenses .....		(925,584)	1,350,658	1,159,954
21. General administrative expenses .....		(800,864)	3,228,940	2,239,962
22. Increase in reserves for life and accident and health contracts (including \$.....0 increase in reserves for life only) .....				
23. Total underwriting deductions (Lines 18 through 22) .....		(1,878,695)	4,453,965	3,247,919
24. Net underwriting gain or (loss) (Lines 8 minus 23) .....	X X X	2,271,573	(2,929,322)	405,715
25. Net investment income earned .....		2,075,623	1,725,438	2,313,664
26. Net realized capital gains (losses) less capital gains tax of \$.....0 .....		151,610	(47,678)	(71,466)
27. Net investment gains or (losses) (Lines 25 plus 26) .....		2,227,233	1,677,760	2,242,198
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)] .....				
29. Aggregate write-ins for other income or expenses .....				
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29) .....	X X X	4,498,806	(1,251,562)	2,647,913
31. Federal and foreign income taxes incurred .....	X X X	(1,130,890)	(425,531)	(107,346)
32. Net income (loss) (Lines 30 minus 31) .....	X X X	5,629,696	(826,031)	2,755,259
<b>DETAILS OF WRITE-INS</b>				
0601. Miscellaneous Income .....	X X X	392,878	1,524,643	3,653,634
0602. State Admin Income .....	X X X			
0603. ....	X X X			
0698. Summary of remaining write-ins for Line 6 from overflow page .....	X X X			
0699. TOTALS (Lines 0601 through 0603 plus 0698) (Line 6 above) .....	X X X	392,878	1,524,643	3,653,634
0701. ....	X X X			
0702. ....	X X X			
0703. ....	X X X			
0798. Summary of remaining write-ins for Line 7 from overflow page .....	X X X			
0799. TOTALS (Lines 0701 through 0703 plus 0798) (Line 7 above) .....	X X X			
1401. Recoveries .....		(158,221)	(114,178)	(129,137)
1402. ....				
1403. ....				
1498. Summary of remaining write-ins for Line 14 from overflow page .....				
1499. TOTALS (Lines 1401 through 1403 plus 1498) (Line 14 above) .....		(158,221)	(114,178)	(129,137)
2901. ....				
2902. ....				
2903. ....				
2998. Summary of remaining write-ins for Line 29 from overflow page .....				
2999. TOTALS (Lines 2901 through 2903 plus 2998) (Line 29 above) .....				

## STATEMENT OF REVENUE AND EXPENSES (Continued)

	1	2	3
	Current Year To Date	Prior Year To Date	Prior Year Ended December 31
<b>CAPITAL &amp; SURPLUS ACCOUNT</b>			
33. Capital and surplus prior reporting year .....	39,149,233	33,552,546	33,552,546
34. Net income or (loss) from Line 32 .....	5,629,696	(826,031)	2,755,259
35. Change in valuation basis of aggregate policy and claim reserves .....			
36. Change in net unrealized capital gains (losses) less capital gains tax of \$.....0 .....			
37. Change in net unrealized foreign exchange capital gain or (loss) .....			
38. Change in net deferred income tax .....	(178,115)		(1,033,059)
39. Change in nonadmitted assets .....	329,910	2,944,586	3,874,487
40. Change in unauthorized reinsurance .....			
41. Change in treasury stock .....			
42. Change in surplus notes .....			
43. Cumulative effect of changes in accounting principles .....			
44. Capital Changes:			
44.1 Paid in .....			
44.2 Transferred from surplus (Stock Dividend) .....			
44.3 Transferred to surplus .....			
45. Surplus adjustments:			
45.1 Paid in .....			
45.2 Transferred to capital (Stock Dividend) .....			
45.3 Transferred from capital .....			
46. Dividends to stockholders .....			
47. Aggregate write-ins for gains or (losses) in surplus .....			
48. Net change in capital and surplus (Lines 34 to 47) .....	5,781,491	2,118,555	5,596,687
49. Capital and surplus end of reporting period (Line 33 plus 48) .....	44,930,724	35,671,101	39,149,233
<b>DETAILS OF WRITE-INS</b>			
4701. Change in Unrealized Valuation .....			
4702. ....			
4703. ....			
4798. Summary of remaining write-ins for Line 47 from overflow page .....			
4799. TOTALS (Lines 4701 through 4703 plus 4798) (Line 47 above) .....			

**Report #2A: TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES**

	Current Year		Previous Year
	Current Period	Year to Date Total	Total
Member Months	0	0	0
<b>REVENUES:</b>			
1. TennCare Capitation	0	0	0
2. Investment	820,345	2,227,233	2,242,197
3. Other Revenue	392,878	392,878	3,653,634
IBNR / Capitation Revenue Receivable	0	0	0
Premium Tax	0	0	0
State Admin Revenue	0	0	0
4. TOTAL REVENUES (Lines 1 to 3)	1,213,223	2,620,111	5,895,831
<b>EXPENSES:</b>			
Medical and Hospital Services:			
5. Capitated Physician Services	0	0	0
6. Fee-For-Service Physician Services	0	0	0
7. Inpatient Hospital Services	5,974	5,974	0
8. Outpatient Services	0	0	0
9. Emergency Room Services	0	0	0
10. Mental Health Services	0	0	0
11. Dental Services (Capitated & FFS)	0	0	0
12. Vision Services (Capitated , FFS & Opthamology)	0	0	0
13. Pharmacy Services (Capitated & FFS)	0	0	(22,860)
14. Home Health Services	0	0	0
15. Chiropractic Services	0	0	0
16. Radiology Services	0	0	0
17. Laboratory Services	0	0	0
18. Durable Medical Equipment Services	0	0	0
19. Transportation Services (Capitated)	0	0	0
20. Outside Referrals	0	0	0
21. Medical Incentive Pool and Withhold Adjustments	0	0	0
22. Occupancy, Depreciation, and Amortization	0	0	0
23. <b>Other Medical and Hospital Services (Provide Detail)</b>			
Surgery - Orthopedic - FFS Office	0	0	0
MCO Delegated Services	0	0	0
Allergy & Immunology FFS Office & Other	0	0	0
Counselors/Therapists	0	0	0
Otolaryngology - FFS Office	0	0	0
Anesthesiology - FFS Hosp & Other	0	0	0
Gastroenterology	0	0	0
Preventive Medicine	0	0	0
Ped Emergency Medicine - FFS Hospital	0	0	0
Miscellaneous	0	0	0
IBNR	0	0	0
Risk Share	0	0	0
24. Subtotal (Lines 5 to 23)	5,974	5,974	(22,860)
25. Reinsurance Expenses Net of Recoveries	0	0	0
LESS:	0		
26. Copayments	0	0	0
27. Subrogation	0	0	0
27a Recoveries	28,702	158,221	129,137
28. Coordination of Benefits	0	0	0
29. Subtotal (Lines 26 to 28)	28,702	158,221	129,137
30. TOTAL MEDICAL AND HOSPITAL (Lines 24 and 25 less 29)	(22,728)	(152,247)	(151,998)

Report #2A (Continued): TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES			
	Current Year		Previous Year
	Current Period	Year to Date Total	Total
<b>Administration:</b>			
31. Compensation (Including Allocated Costs)	139,015	608,633	9,567,364
32. Marketing (Including Allocated Costs)	0	2,915	6,290
33. Premium Tax Expense	0	0	0
34. Occupancy, Depreciation and Amortization (Including Allocated Costs)	0	0	1,167,298
35. <b>Other Administration (Provide detail)</b>			
Printing	27,604	135,167	143,605
Rent/Utilities	0	0	0
Franchise, Excise & Property Taxes	0	0	0
Postage	37,629	126,337	166,199
Legal Fees	(3,503)	(6,009)	11,542
Liquidated Damages	(419,300)	(284,932)	(552,350)
Outside Services	92,032	337,302	361,459
Board & Committee Fees	0	0	0
Auditing, actuarial and other consulting services	0	0	0
Books & Subscriptions	362	3,526	4,522
Dues, Fees & Licenses	0	660	41,550
Education & Seminars	0	0	0
Meals & Entertainment	81	140	393
Office Supplies	918	2,549	6,339
Minor Equipment	0	4,097	4,662
Travel	0	0	218
Wellness Program	0	0	0
Leases & Rentals of equipment	0	0	0
Repairs/Maintenance Agreements	39,760	61,849	40,784
Telephone/Beepers/Cellular Phones	0	0	0
Temp/Contract Personnel	96,922	251,182	110,034
Provision for Loss Contracts	(4,427,640)	(4,427,640)	0
Risk Banding Reserve	0	0	0
Program Run Out Expense	0	0	0
State Admin Revenue	(3,356,555)	(10,454,649)	(14,235,271)
Miscellaneous Expense	(1,772,880)	(1,919,616)	(1,314,246)
<b>Total DIRECT Expenses</b>	<b>(9,545,555)</b>	<b>(15,558,489)</b>	<b>(4,469,609)</b>
<b>Other ALLOCATED Expenses (Provide detail)</b>			
Rent/Utilities	0		559,297
Printing	0		86,004
Postage	0		411,526
Legal Fees	0		364,930
Outside Services	0		1,451,036
Board & Committee Fees	0		103,436
Survey Fees	0		67,776
Telephone/Beepers/Cellular Phones	0		336,105
Books & Subscriptions	0		98,831
Minor Equipment	0		74,367
Computer Supplies	0		0
Dues, Fees & Licenses	0		106,331
Education & Seminars	0		61,782
Meals & Entertainment	0		24,456
Office Supplies	0		108,760
Travel	0		68,986
Miscellaneous Expense	4,455,592	13,832,041	167,635
Franchise, Excise & Property Taxes & Sales/Use Tax	0		109,936
Insurance	0		298,828
Leases & Rentals of equipment	0		49,082
Repairs/Maintenance Agreements	0		527,522
Relocation Expense Total	0		2,248
Training and Orientation Total	0		0
Temp/Contract Personnel	0		477,238
Covenant Management Fees	0		2,313,414
<b>Total ALLOCATED Expenses</b>	<b>4,455,592</b>	<b>13,832,041</b>	<b>7,869,525</b>
36. <b>TOTAL ADMINISTRATION (Lines 31 to 36)</b>	<b>(5,089,963)</b>	<b>(1,726,448)</b>	<b>3,399,916</b>
FIT & Excise Tax	(617,875)	(1,130,890)	(107,346)
37. <b>Total Other Expenses:</b>	<b>(617,875)</b>	<b>(1,130,890)</b>	<b>(107,346)</b>
38. <b>TOTAL EXPENSES (Lines 30 and 37 and 37A)</b>	<b>(5,700,566)</b>	<b>(3,009,585)</b>	<b>3,140,572</b>
39. <b>NET INCOME (LOSS) (Line 4 less Line 38)</b>	<b>6,943,789</b>	<b>5,629,696</b>	<b>2,755,259</b>



**Report #2A: TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES**

	Current Year		Previous Year
	Current Period	Year to Date Total	Total
Member Months	291,172	914,822	1,243,200
<b>REVENUES:</b>			
1. TennCare Capitation	49,408,943	141,012,678	188,214,622
2. Investment	839,102	2,296,769	2,448,616
3. Other Revenue	392,878	392,878	3,653,634
IBNR / Capitation Revenue Receivable	(4,868,857)	22,292,866	24,064,994
Premium Tax	(23,192)	(183,739)	3,253,034
State Admin Revenue	0	0	0
4. TOTAL REVENUES (Lines 1 to 3)	45,748,875	165,811,452	221,634,900
<b>EXPENSES:</b>			
Medical and Hospital Services:			
5. Capitated Physician Services	0	0	0
6. Fee-For-Service Physician Services	4,898,799	18,213,664	24,712,195
7. Inpatient Hospital Services	21,746,183	84,514,661	108,957,785
8. Outpatient Services	19,471	46,438	65,397
9. Emergency Room Services	2,570,525	10,906,316	15,195,927
10. Mental Health Services	13,170	27,692	22,659
11. Dental Services (Capitated & FFS)	718	2,200	3,076
12. Vision Services (Capitated , FFS & Opthamology)	242,880	638,260	825,503
13. Pharmacy Services (Capitated & FFS)	0	3	(22,738)
14. Home Health Services	294,826	685,913	900,434
15. Chiropractic Services	0	0	0
16. Radiology Services	87,574	258,553	343,156
17. Laboratory Services	5,493,545	20,562,912	26,737,123
18. Durable Medical Equipment Services	2,066,057	7,593,863	10,770,833
19. Transportation Services (Capitated)	1,621,378	4,332,338	4,599,149
20. Outside Referrals	0	0	0
21. Medical Incentive Pool and Withhold Adjustments	0	0	0
22. Occupancy, Depreciation, and Amortization	0	0	0
23. Other Medical and Hospital Services (Provide Detail)	0	0	0
Surgery - Orthopedic - FFS Office	0	0	0
MCO Delegated Services	0	0	0
Allergy & Immunology FFS Office & Other	2,090,412	6,074,193	8,948,676
Counselors/Therapists	0	0	0
Otolaryngology - FFS Office	319,719	1,100,895	1,462,137
Anesthesiology - FFS Hosp & Other	703,128	2,092,621	2,833,024
Gastroenterology	12,910	34,257	61,654
Preventive Medicine	1,121,446	2,703,378	3,554,256
Ped Emergency Medicine - FFS Hospital	0	0	0
Miscellaneous	693,083	1,789,553	3,213,912
IBNR	0	0	0
Risk Share	0	0	0
24. Subtotal (Lines 5 to 23)	43,995,823	161,577,710	213,184,158
25. Reinsurance Expenses Net of Recoveries	0	0	0
LESS:			
26. Copayments	0	0	0
27. Subrogation	157,682	512,148	1,010,472
27a Recoveries	163,952	698,293	703,413
28. Coordination of Benefits	0	0	0
29. Subtotal (Lines 26 to 28)	321,634	1,210,441	1,713,884
30. TOTAL MEDICAL AND HOSPITAL (Lines 24 and 25 less 29)	43,674,189	160,367,269	211,470,274

Report #2A (Continued): TENNCARE OPERATIONS STATEMENT OF REVENUES AND EXPENSES			
	Current Year		Previous Year
	Current Period	Year to Date Total	Total
<b>Administration:</b>			
31. Compensation (Including Allocated Costs)	139,015	608,633	9,567,364
32. Marketing (Including Allocated Costs)	0	2,915	6,290
33. Premium Tax Expense	838,735	2,671,825	4,116,797
34. Occupancy, Depreciation and Amortization (Including Allocated Costs)	0	0	1,167,298
35. <b>Other Administration (Provide detail)</b>	0	0	0
Printing	27,604	135,167	143,605
Rent/Utilities	0	0	0
Franchise, Excise & Property Taxes	0	0	0
Postage	37,629	126,337	166,199
Legal Fees	(3,503)	(6,009)	11,542
Liquidated Damages	(419,300)	(284,932)	(552,350)
Outside Services	92,032	337,302	361,459
Board & Committee Fees	0	0	0
Auditing, actuarial and other consulting services	0	0	0
Books & Subscriptions	362	3,526	4,522
Dues, Fees & Licenses	0	660	41,550
Education & Seminars	0	0	0
Meals & Entertainment	81	140	393
Office Supplies	918	2,549	6,339
Minor Equipment	0	4,097	4,662
Travel	0	0	218
Wellness Program	0	0	0
Leases & Rentals of equipment	0	0	0
Repairs/Maintenance Agreements	39,760	61,849	40,784
Telephone/Beeepers/Cellular Phones	0	0	0
Temp/Contract Personnel	96,922	251,182	110,034
Provision for Loss Contracts	(4,427,640)	(4,427,640)	0
Risk Banding Reserve	0	0	0
Program Run Out Expense	0	0	0
State Admin Revenue	(3,356,555)	(10,454,649)	(14,235,271)
Miscellaneous Expense	(1,772,880)	(1,919,616)	(1,314,246)
<b>Total DIRECT Expenses</b>	<b>(8,706,820)</b>	<b>(12,886,664)</b>	<b>(352,812)</b>
<b>Other ALLOCATED Expenses (Provide detail)</b>			
Rent/Utilities	0	0	559,297
Printing	0	0	86,004
Postage	0	0	411,526
Legal Fees	0	0	364,930
Outside Services	0	0	1,451,036
Board & Committee Fees	0	0	103,436
Survey Fees	0	0	67,776
Telephone/Beeepers/Cellular Phones	0	0	336,105
Books & Subscriptions	0	0	98,831
Minor Equipment	0	0	74,367
Computer Supplies	0	0	0
Dues, Fees & Licenses	0	0	106,331
Education & Seminars	0	0	61,782
Meals & Entertainment	0	0	24,456
Office Supplies	0	0	108,760
Travel	0	0	68,986
Miscellaneous Expense	4,455,592	13,832,041	167,635
Franchise, Excise & Property Taxes & Sales/Use Tax	0	0	109,936
Insurance	0	0	298,828
Leases & Rentals of equipment	0	0	49,082
Repairs/Maintenance Agreements	0	0	527,522
Relocation Expense Total	0	0	2,248
Training and Orientation Total	0	0	0
Temp/Contract Personnel	0	0	477,238
Covenant Management Fees	0	0	2,313,414
<b>Total ALLOCATED Expenses</b>	<b>4,455,592</b>	<b>13,832,041</b>	<b>7,869,525</b>
<b>36. TOTAL ADMINISTRATION (Lines 31 to 36)</b>	<b>(4,251,228)</b>	<b>945,377</b>	<b>7,516,713</b>
FIT & Excise Tax	(617,875)	(1,130,890)	(107,346)
<b>37. Total Other Expenses:</b>	<b>(617,875)</b>	<b>(1,130,890)</b>	<b>(107,346)</b>
<b>38. TOTAL EXPENSES (Lines 30 and 37 and 37A)</b>	<b>38,805,086</b>	<b>160,181,756</b>	<b>218,879,641</b>
<b>39. NET INCOME (LOSS) (Line 4 less Line 38)</b>	<b>6,943,789</b>	<b>5,629,696</b>	<b>2,755,259</b>

## Notes to Financial Statement

1. Summary of Significant Accounting Policies
 

Not applicable
2. Accounting Changes and Corrections of Errors
 

Not applicable
3. Business Combinations and Goodwill
 

Not applicable
4. Discontinued Operations
 

Not applicable
5. Investments
 

Not applicable
6. Joint Ventures, Partnerships, and Limited Liability Companies
 

Not applicable
7. Investment Income
 

Not applicable
8. Derivative Instruments
 

Not applicable
9. Income Taxes
 

Not applicable
10. Information concerning Parent, Subsidiaries, and Affiliates
 

Not applicable
11. Debt
 

Not applicable
12. Retirement Plans, Deferred Compensation, Post employment benefits and Compensated Absences and Other Postretirement Benefit Plans.
 

Not applicable
13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations
 

Not applicable
14. Contingencies
 

Not applicable
15. Leases
 

Not applicable
16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk
 

Not applicable
17. Sales, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities
 

A-B. Not applicable

C. Wash Sales  
Not applicable
18. Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans
 

Not applicable
19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

## Notes to Financial Statement

Not applicable

## 20. September 11 Events

Not applicable

## 21. Events Subsequent

Due to recent fluctuations in the financial markets, Tennessee Department of Commerce and Insurance has required disclosure of the effects of October market changes on investments owned at the end of September 30, 2008.

	Adjustments				
	October 2008 Activity				
	Net Admitted Assets reported as of 09/30/2008	Sales	Realized Gain/(Loss)	Unrealized Gain/(Loss)	Adjusted Value of remaining 09/30/2008 Assets as of 10/31/2008
Bonds	63,913,952	31,054,267	(2,882,408)	(529,741)	29,447,536
Stocks					
Preferred					
Common					
Mortgage Loans					
Other Invested					
Assets					
	63,913,952	31,054,267	(2,882,408)	(529,741)	29,447,536
			(1)	(2)	
Total Capital and Surplus reported on Quarterly Statement					65,536,015
Change in 9-30-2008 surplus as a result of realized and unrealized gains/ (losses) occurring October 2008 related to assets owned as of 9-30-08					(3,412,149)
Total Capital and Surplus restated for investment fluctuations during October 2008 related to assets owned as of 9-30-08					62,123,866
Percentage change in 9-30-08 surplus resulting from October 2008 realized and unrealized gains/(losses) on assets owned as of 9-30-08					-9.48%

On October 21, 2008, Tennessee Department of Commerce and Insurance approved the acquisition order by Humana, Inc. to purchase the parent company of Preferred Health Partnership of Tennessee from Covenant Health. The sale was finalized November 01, 2008. The Company does not believe this event will have a material impact on its financial condition.

## 22. Other Items

Not applicable

## 23. Reinsurance

Not applicable

## 24. Retrospectively Rated Contracts &amp; Contracts Subject to Redetermination

Not applicable

## 25. Change in Incurred Claims and Claim Adjustment Expenses

Not applicable

## 26. Intercompany Pooling Arrangements

Not applicable

## 27. Structured Settlements

Not applicable

## 28. Health Care Receivables

Not applicable

## Notes to Financial Statement

29. Participating Policies

Not applicable

30. Premium Deficiency Reserves

Not applicable

31. Anticipated Salvage and Subrogation

Not applicable

# **SCHEDULE D - PART 1B**

## **Showing the Acquisitions, Dispositions and Non-Trading Activity**

### **During the Current Quarter for all Bonds and Preferred Stock by Rating Class**

	1	2	3	4	5	6	7	8
	Book/Adjusted Carrying Value Beginning of Current Quarter	Acquisitions During Current Quarter	Dispositions During Current Quarter	Non-Trading Activity During Current Quarter	Book/Adjusted Carrying Value End of First Quarter	Book/Adjusted Carrying Value End of Second Quarter	Book/Adjusted Carrying Value End of Third Quarter	Book/Adjusted Carrying Value December 31 Prior Year
<b>BONDS</b>								
1. Class 1 (a)	77,389,912	46,650,000	67,010,944	(44,309)	48,903,043	77,389,912	56,984,659	51,004,490
2. Class 2 (a)	6,940,195			(10,901)	6,951,096	6,940,195	6,929,294	4,638,510
3. Class 3 (a)								
4. Class 4 (a)								
5. Class 5 (a)								
6. Class 6 (a)								
7. Total Bonds	84,330,106	46,650,000	67,010,944	(55,210)	55,854,139	84,330,106	63,913,952	55,643,000
<b>PREFERRED STOCK</b>								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock	84,330,106	46,650,000	67,010,944	(55,210)	55,854,139	84,330,106	63,913,952	55,643,000
15. Total Bonds & Preferred Stock	84,330,106	46,650,000	67,010,944	(55,210)	55,854,139	84,330,106	63,913,952	55,643,000
Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation: NAIC 1 \$.....0; NAIC 2 \$.....0; NAIC 3 \$.....0; NAIC 4 \$.....0; NAIC 5 \$.....0; NAIC 6 \$.....0								

**SCHEDULE DA - PART 1**

Short - Term Investments Owned End of Current Quarter

	1 Book/Adjusted Carrying Value	2	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
8299999. Totals	<b>NONE</b>				

**SCHEDULE DA - Verification**

Short-Term Investments

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	1,500,000	
2. Cost of short-term investments acquired		1,496,150
3. Accrual of discount		3,850
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals		
6. Deduct consideration received on disposals	1,500,000	
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9)		1,500,000
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)		1,500,000

## SCHEDULE D - PART 3

Show All Long-Term Bonds and Stock Acquired by the Company During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
<b>Bonds - Political Subdivisions of States, Territories and Possessions</b>									
499527AG4	COVENANT ARS		07/09/2008	NORTHERN TRUST	X X X	275,000	275,000.00		1FE
499527AH2	COVENANT ARS		07/10/2008	NORTHERN TRUST	X X X	100,000	100,000.00		1FE
499527AE9	COVENANT ARS		07/22/2008	NORTHERN TRUST	X X X	5,000,000	5,000,000.00		1FE
499527AF6	COVENANT ARS		07/10/2008	NORTHERN TRUST	X X X	1,050,000	1,050,000.00		1FE
499527AG4	COVENANT ARS		07/23/2008	NORTHERN TRUST	X X X	600,000	600,000.00		1FE
499527AH2	COVENANT ARS		07/17/2008	NORTHERN TRUST	X X X	500,000	500,000.00		1FE
499527AE9	COVENANT ARS		08/05/2008	NORTHERN TRUST	X X X	5,000,000	5,000,000.00		1FE
499527AG4	COVENANT ARS		08/13/2008	NORTHERN TRUST	X X X	2,900,000	2,900,000.00		1FE
499527AF6	COVENANT ARS		08/20/2008	NORTHERN TRUST	X X X	1,075,000	1,075,000.00		1FE
499527AG4	COVENANT ARS		08/21/2008	NORTHERN TRUST	X X X	1,250,000	1,250,000.00		1FE
499527AH2	COVENANT ARS		08/27/2008	NORTHERN TRUST	X X X	425,000	425,000.00		1FE
499527AE9	COVENANT ARS		08/28/2008	NORTHERN TRUST	X X X	175,000	175,000.00		1FE
499527AF6	COVENANT ARS		08/28/2008	NORTHERN TRUST	X X X	3,000,000	3,000,000.00		1FE
499527AG4	COVENANT ARS		09/02/2008	NORTHERN TRUST	X X X	5,000,000	5,000,000.00		1FE
499527AH2	COVENANT ARS		09/03/2008	NORTHERN TRUST	X X X	325,000	325,000.00		1FE
499527AE9	COVENANT ARS		09/04/2008	NORTHERN TRUST	X X X	100,000	100,000.00		1FE
499527AG4	COVENANT ARS		09/16/2008	NORTHERN TRUST	X X X	5,000,000	5,000,000.00		1FE
499527AF6	COVENANT ARS		09/17/2008	NORTHERN TRUST	X X X	5,000,000	5,000,000.00		1FE
499527AH2	COVENANT ARS		09/18/2008	NORTHERN TRUST	X X X	4,875,000	4,875,000.00		1FE
499527AG4	COVENANT ARS		09/18/2008	NORTHERN TRUST	X X X	5,000,000	5,000,000.00		1FE
2499999 Subtotal - Bonds - Political Subdivisions of States, Territories and Possessions					X X X	46,650,000	46,650,000.00		X X X
6099997 Subtotal - Bonds - Part 3					X X X	46,650,000	46,650,000.00		X X X
6099998 Summary Item from Part 5 for Bonds (N/A to Quarterly)					X X X	X X X	X X X	X X X	X X X
6099999 Subtotal - Bonds					X X X	46,650,000	46,650,000.00		X X X
6599998 Summary Item from Part 5 for Preferred Stocks (N/A to Quarterly)					X X X	X X X	X X X	X X X	X X X
7299998 Summary Item from Part 5 for Common Stocks (N/A to Quarterly)					X X X	X X X	X X X	X X X	X X X
7399999 Subtotal - Preferred and Common Stocks					X X X	X X X	X X X	X X X	X X X
7499999 Total - Bonds, Preferred and Common Stocks					X X X	46,650,000	X X X	X X X	X X X

(a) For all common stock bearing the NAIC market indicator "U" provide the number of such issues .....0.



# **SCHEDULE D - PART 4** **Show All Long-Term Bonds and Stocks Sold, Redeemed, or Otherwise Disposed of** **by the Company During the Current Quarter**

1	2	3	4	5	6	7	8	9	10	Change in Book-Adjusted Carrying Value					16	17	18	19	20	21	22	
										11	12	13	14	15								
CUSIP Identification	Description	Disposal Date		Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11 + 12 - 13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)	
Bonds - U.S. Governments																						
31359MUJ3	FNMA	07/10/2008		NORTHERN TRUST	XXX	1,510,944	1,500,000.00	1,516,466	1,507,740		(844)		(844)		1,508,896		4,048	4,048	35,000	08/01/2012	FE	XXX
0335999 Subtotal - Bonds - U.S. Governments																						
Bonds - Political Subdivisions of States, Territories and Possessions																						
34074GAZ2	FLORIDA HIGHWAY BOND	07/01/2008		NORTHERN TRUST	XXX	1,500,000	1,500,000.00	1,534,955	1,508,392		(8,392)		(8,392)		1,500,000				37,500	07/01/2008	FE	XXX
48527AF6	COVENANT ARS	07/02/2008		NORTHERN TRUST	XXX	2,000,000	2,000,000.00	2,000,000							2,000,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	07/03/2008		NORTHERN TRUST	XXX	700,000	700,000.00	700,000							700,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	07/08/2008		NORTHERN TRUST	XXX	1,625,000	1,625,000.00	1,625,000							1,625,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	07/10/2008		NORTHERN TRUST	XXX	2,000,000	2,000,000.00	2,000,000							2,000,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	07/11/2008		NORTHERN TRUST	XXX	2,500,000	2,500,000.00	2,500,000							2,500,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	08/01/2008		NORTHERN TRUST	XXX	1,000,000	1,000,000.00	1,000,000							1,000,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	08/07/2008		NORTHERN TRUST	XXX	1,450,000	1,450,000.00	1,450,000							1,450,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	08/07/2008		NORTHERN TRUST	XXX	1,000,000	1,000,000.00	1,000,000							1,000,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	08/12/2008		NORTHERN TRUST	XXX	1,325,000	1,325,000.00	1,325,000							1,325,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	08/12/2008		NORTHERN TRUST	XXX	6,000,000	6,000,000.00	6,000,000							6,000,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	08/12/2008		NORTHERN TRUST	XXX	5,000,000	5,000,000.00	5,000,000							5,000,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	09/01/2008		NORTHERN TRUST	XXX	1,975,000	1,975,000.00	1,975,000							1,975,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	09/09/2008		NORTHERN TRUST	XXX	4,000,000	4,000,000.00	4,000,000							4,000,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	09/11/2008		NORTHERN TRUST	XXX	3,000,000	3,000,000.00	3,000,000							3,000,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	09/24/2008		NORTHERN TRUST	XXX	10,500,000	10,500,000.00	10,500,000							10,500,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	09/25/2008		NORTHERN TRUST	XXX	13,725,000	13,725,000.00	13,725,000							13,725,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	09/25/2008		NORTHERN TRUST	XXX	100,000	100,000.00	100,000							100,000					01/01/2046	FE	XXX
48527AF6	COVENANT ARS	09/26/2008		NORTHERN TRUST	XXX	7,000,000	7,000,000.00	7,000,000							7,000,000					01/01/2046	FE	XXX
249999 Subtotal - Bonds - Political Subdivisions of States, Territories and Possessions																						
609999	Summary Item from Part 5 for Bonds (N/A to Quarterly)				XXX	65,500,000	65,500,000.00	64,634,965	1,508,392		(8,392)		(8,392)		110,050,000				37,500	XXX	XXX	XXX
609999	Summary Item from Part 5 for Bonds (N/A to Quarterly)				XXX	67,010,944	67,000,000.00	66,151,431	3,016,132		(9,236)		(9,236)		111,556,896		4,048	4,048	72,500	XXX	XXX	XXX
609999 Subtotal - Bonds																						
509999	Summary Item from Part 5 for Preferred Stocks (N/A to Quarterly)				XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
509999	Summary Item from Part 5 for Preferred Stocks (N/A to Quarterly)				XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
729999	Summary Item from Part 5 for Common Stocks (N/A to Quarterly)				XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
729999	Summary Item from Part 5 for Common Stocks (N/A to Quarterly)				XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
739999 Subtotal - Preferred and Common Stocks																						
739999	Total - Bonds, Preferred and Common Stocks				XXX	67,010,944	67,000,000.00	66,151,431	3,016,132		(9,236)		(9,236)		111,556,896		4,048	4,048	72,500	XXX	XXX	XXX

(a) For all common stock bearing the NAIC market indicator "U" provide the number of such issues.....0.

